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SUBJECT: ORANGE GROVES AND CORRUPTION ALONG THE YANGTZE

CHENGDU 00000033 001.2 OF 003

CLASSIFIED BY: James Boughner, Consul General, Chengdu,
Department of State.
REASON: 1.4 (b), (d)

11. (U) This cable contains business sensitive information -
please protect accordingly.

12. (C) Summary. During a recent visit by Consul General and
Congenoff to Chongqing's Zhongxian County, U.S. investors in a
citrus cultivation project described the many trials and
tribulations of trying to turn a profit in this remote corner of
China. Although relatively small in terms of dollars invested,
if successful the project could prove a great boon to an
economically backward area. Corruption, poor local government
practices, and outright theft and bureaucratic incompetence,
however, remain major challenges for an investment that has
reportedly been brought to the attention of the highest levels
of the Chinese government. End summary.

13. (SBU) Consul General, Congenoff, and Consulate Econ Assistant
recently visited Chongqing to investigate economic and social
conditions in the Three Gorges Dam reservoir area. Results of
official meetings, and of a visit to the nearby city of Fuling,
will be reported septel. During that same trip, Congenoffs also
visited Zhongxian County, about four hours by car from
Chongqing's urban areas. There they inspected a project
undertaken by the Edgar M. Bronfman Citrus Company ("Bronfman")
to develop an orange juice industry in the area.

14. (C) Before the visit, FAO officials contacted Consul General
and made two requests: first, that Congenoffs would only visit
certain orange groves designated by local officials; and second,
that an FAO official be present whenever Congenoffs met with
Bronfman representatives. Consul General declined those
requests.

THE PROJECT: GOOD ON PAPER

15. (C) In Zhongxian, Consul General and Congenoff met with
Bronfman CEO Jeffrey S. Muir, Business Operations Director Cindy
Lau, and Project Construction Director Rene Trevino (strictly
protect all). Neither Chinese officials nor Consulate Econ
Assistant attended, and the meeting took place in Muir's hotel
room. Muir, an Amcit resident in Hong Kong, has more than 30
years of experience in China and in agricultural development
generally, and he claims access to the highest levels of Chinese

political leadership. He speaks both Mandarin and Cantonese.

¶6. (C) Muir began by outlining the history of the project. Shortly after 2000, managers of what was then the Seagram Company conceived the idea of using the resettled areas of the Three Gorges project for the cultivation of juice oranges. (Note: Seagram's parent company Bronfman took over the project after 2004. End note.) Although transportation and other basic infrastructure were lacking, Muir and Trevino indicated that Zhongxian's climate and soil conditions make it perhaps the best location in all of East Asia in which to develop juice orange groves. After obtaining the approval of central and local government agricultural officials, company representatives gave large numbers of orange seedlings to Zhongxian farmers, with the idea that by the time the trees matured in five to seven years' time, the company would have a juice processing plant constructed and operating.

THE VULTURES GATHER

¶7. (C) According to Muir, local officials assigned a Zhongxian businessman named Lan Yihua to assist the company, and urged Seagram/Bronfman to consider Lan as a joint venture partner once the project became commercially viable. (Note: Muir said that Lan had served as a high-level manager of the Three Gorges Construction Group before that entity had been privatized, and as a result had powerful political connections. He currently serves as Vice Chairman of the Zhongxian CPPCC. End note.) Muir alleged that Lan quickly moved to "use" the Seagram/Bronfman names to get financial assistance from central and local government agencies, and then diverted those funds to his own use. One example Muir gave was the town of Wuyang across the river from Zhongxian, where Muir said Lan had misappropriated funds intended for the construction of roads and orange groves. Muir remarked it was well known in the area that Lan was protected by Chongqing Deputy Mayor Chen Guangguo, the

CHENGDU 00000033 002.2 OF 003

number three in the Chongqing Communist Party hierarchy.

¶8. (C) Muir also said that Seagram/Bronfman had invested USD 11 million in constructing and staffing a technical assistance center to help farmers deal with the challenges of raising commercially viable fruit. In December of 2004, Muir continued, the company was served with a "court order" requiring it to turn the center and all of its funds over to the county government. Muir described how "five cars full of thugs" delivered the "order." At the same time, according to Muir, the center's former general manager and other local businesspeople began a smear campaign against Muir, accusing him of having diverted project funds to Hong Kong. Muir was however able to leave the area and return to his home in Hong Kong. The local government assumed oversight of the orange groves.

¶9. (C) By the summer of 2005, said Muir, the technical center had been "abandoned," and farmers had become unhappy with the lack of support, to the point of organizing occasional demonstrations against local officials. In an effort to restart the project, Muir said he contacted former Hong Kong Chief Executive C.H. Tung, and wrote letters to the National People's Congress and to central bodies of the Chinese Communist Party. Muir said the Bronfman family patriarch personally visited China and raised the project with Premier Wen Jiabao and Chongqing Party Secretary Wang Yang. Although the "lobbying" process was lengthy, the political pressure proved effective, and in December 2005 local officials invited Bronfman to return. However, only about half of the orange groves were returned to Bronfman's oversight, while the remainder continued to be managed by Lan and by the local government.

¶10. (C) Muir noted the time and money lost as a result of those malfeasances had caused significant delays, and the project now looked likely to get only half of its originally anticipated juice supply. In addition, project managers faced enormous

challenges in educating local farmers to maintain the trees properly, and to avoid the process of "intercropping," in which other crops such as tobacco, cabbages, potatoes, and peanuts were planted between the rows of orange trees. Addressing the subject of damage from the recent drought, Muir and Trevino said that although trees had suffered some stress, none had died, partly as the result of "water bucket brigades" organized by local farmers.

¶11. (C) Bronfman is proceeding with the construction of the juice processing plant, and Congenoffs toured the site. Muir and Trevino told Congenoffs that they hoped to have the plant operating by the end of 2007. Muir claimed Bronfman's main purpose in maintaining the project was not "economic" at this time, but Bronfman hoped to make political points at the central government level. At one point, Bronfman officials had hoped to market an orange juice product for the Chinese domestic market in time for the 2008 Olympic Games, but Muir and Trevino agreed that this goal was almost impossible.

CORRUPTION AND FEAR

¶12. (C) In a comment on the current state of local leadership, Muir described corruption as "extensive," although he said the situation had improved somewhat as the result of increased central government attention to the Three Gorges resettlement areas. According to Muir, corruption and large income gaps in areas of Chongqing have attracted the personal interest of Premier Wen Jiabao, who has "lambasted" local officials for poor performance. Businessman Lan, however, has been able to continue to create problems for the project by interfering in Bronfman's relationship with the local government.

¶13. (C) Addressing his relations with local farmers, Muir said he is careful to avoid being cast as an "advocate" for rural residents. He said that local officials were "terrified" of the farmers, due to ongoing discontent over land use and resettlement, and the farmers' reputation for violence. Asked about farmer's associations, Muir said that although they operated outside the immediate control of the local government and Communist Party, those associations closely mirrored the structure of previous agricultural work units dating from the time of collectivization, and local security officials monitored all of their activities carefully. He said that Bronfman's local office had two or three staff members who reported to security officials as well.

¶14. (C) Congenoffs and Bronfman officials later met with Zhongxian Vice Party Secretary Chen Daoliu, who called the project a "win-win" situation. He also noted that Bronfman's

CHENGDU 00000033 003.2 OF 003

total planned investment in the project (USD 13 million for the technical center and trees plus USD 30 million for the processing center) was far in excess of the county's annual GDP, underscoring its importance to the area's economy. He stressed the Zhongxian government's support for the project. (Note: Muir later described Chen Daoliu as a "relatively good guy" compared with other local officials. End note.)

COMMENT

¶15. (C) Bronfman's citrus project is quite small by the standards of multinational FDI, but if it succeeds, it could have an notable impact on the local economy of one of Chongqing's most backward areas. However, Muir's story of corruption makes it clear local officials and business figures often do not have the long-term interests of their citizens at heart, and the project's ultimate commercial viability is far from certain. The story serves as a cautionary tale about the challenges of doing business in China's hinterlands and the major developmental difficulties faced by government

authorities. Congen will continue to try to monitor the project closely.
BOUGHNER